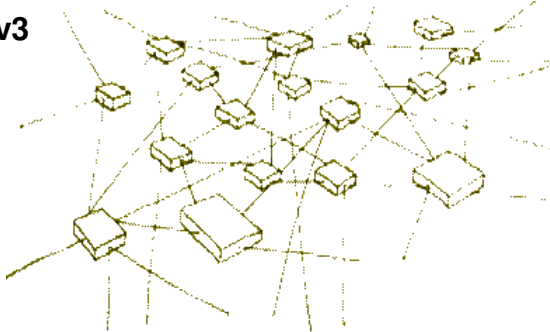


v3



Rhizome Management Services

URBANGENESIS

Social Housing Regulatory Authority (SHRA)

Background & Overview

Municipal Leadership Housing Forum

20 May 2010

Andreas Bertoldi & Graeme Reid

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2. Rationale for Regulation
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Background to Social Housing

Brief History of Social Housing in South Africa

...1/3

Social housing originated in Europe over 100 years

South Africa's social housing sector is about 17 years old

The most common ownership forms of social housing internationally are:

- Not-for-profit housing associations
- Co operatives, and
- State or municipal owned accommodation

Between 1995 and 2008 developments in relation to social housing addressed:

- Funding mechanisms
- The legal environment
- Defining a clearer role for rental housing generally (and social housing in particular)
- Creating a legislative framework

Background to Social Housing

Current Context ...1/2

Housing Backlog

- Significant backlog – 2.3 m households inadequately housed in 2007

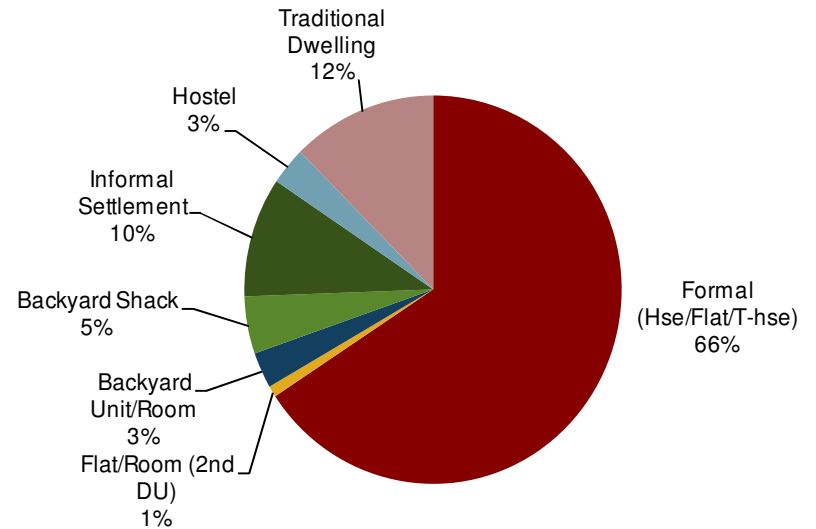
Rental housing

- Approximately one fifth (19%) of all South African households comprising over 2.3 million households rent their primary dwelling
- Demand for all types of housing is high, particularly rental accommodation - location, quality and high rates of mobility
 - Demand for rental housing estimated at some 100,000 units per annum in the middle to lower income groups
 - Rental housing provides access to affordable, well-located accommodation for those who choose not to, or may not be able to, purchase property.
 - Plays a critical role for those who cannot access housing finance
 - Allows greater flexibility and mobility

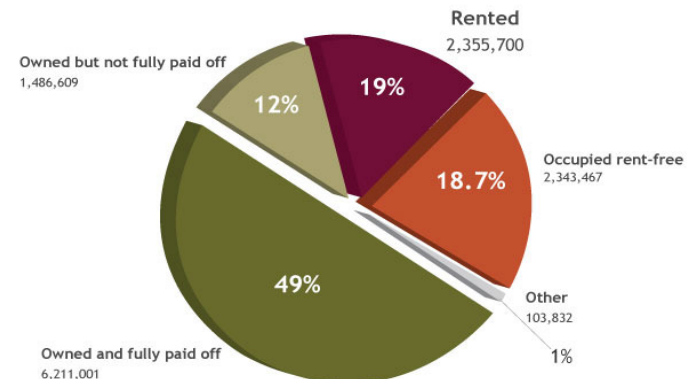
Key challenges

- SA rental sector underdevelopment and small when considered in international context
- Range of rental options required as part of the housing strategy
- Poor struggle to access limited rental opportunities provided by formal market (especially in good locations)
- Gearing in rental sector to scale limited by weak current capacity

Accommodation Types by Household, 2007



Housing Tenure, 2007



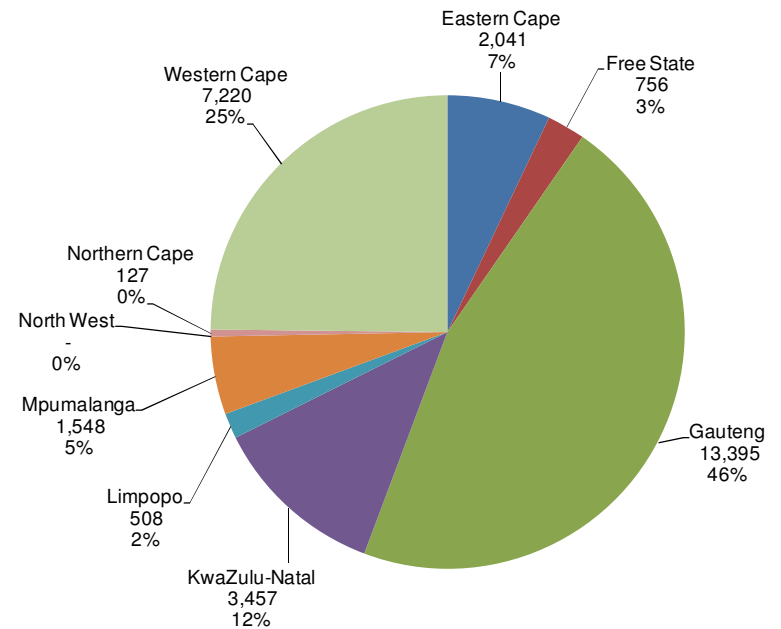
Background to Social Housing

Current Context ...2/2

The Social Housing Sector

- Current Status
 - Some 33 social housing institutions with 29,000 units under management
 - Number of institutions has been increasing but number of units has not been
 - Majority of institutions unviable - a large number are classified as being in financial distress
 - Delivery of social housing by the private sector is extremely limited
 - Characterized by absence of any properly empowered and sufficiently skilled regulatory authority
- Sector has performed poorly (despite significant government resources) in respect of:
 - governance
 - fiscal management
 - project and institutional viability
 - overall housing delivery
- Reasons include:
 - excessive emphasis on creating new institutions
 - inadequacy of the level of subsidy available
 - inability to secure private sector finance
 - relatively small and not equipped to deliver at the scale
 - significant problems with management capacity

Number of Social Housing Units Under Management, 2010



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Rationale for Regulation

The core rationale for such an entity can be summarised as follows:

- The **need to protect and manage the state's considerable investment in social housing** to date (estimated at some R 3.3 billion plus) as well as planned investment over the next five-years (some R 6 billion).
- The **need to ensure that the public interest is preserved**, and that projects are developed for and service intended target groups. This is of particular importance given the policy intention to stimulate private sector investment and development.
- The **need to ensure that both social housing projects as well as social housing institutions are financially viable.**
- The **need to ensure that a sustainable social housing sector is developed** with sound financial and governance principles in place.
- The **need to ensure that the sector is effectively managed and held accountable** for its delivery and the utilisation of public funds.
- The **need to ensure that a coordinated and well managed intervention programme** is designed to ensure compliance with policy principles, fiscal norms and regulations.
- The **need to create an environment conducive to increased private sector participation (both development and finance) in the social housing sector**, especially leveraging increased private sector funds (potentially in excess of R 5 billion over the next five-years).
- **The need**, through the development of appropriate social housing projects in appropriate locations, **to support the improved viability and development and integration of designated urban areas.**

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Policy Framework

Legislative & Policy Framework for SHRA

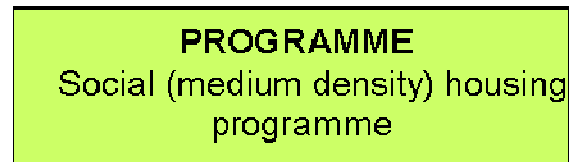
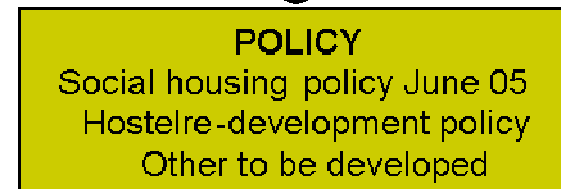
Social housing policy framework aims to support increased housing delivery

- BNG housing strategy provides for the creation of affordable rental opportunities and tackling informal settlements directly by:
 - Preventing further development of informal settlements and
 - broadening access to affordable housing opportunities in urban areas

Social Housing Policy ...

- Approved by Minmec in July 2005
- May 2005 revised Social Housing Policy recommended the establishment of a regulating authority - the Social Housing Regulatory Authority (SHRA)
- Social Housing Act 2009

BNG Strategy addresses Social (medium density) housing :



Policy Framework

Defining Social Housing

Definitions

- **social housing** is defined as “a rental or co-operative housing option for low to medium income households at a level of scale and built form which requires institutionalised management and which is provided by social housing institutions or other delivery agents in approved projects in designated restructuring zones with the benefit of public funding as contemplated in this Act; and
- a **social housing institution** is defined as “an institution accredited or provisionally accredited under this Act which carries or intends to carry on the business of providing rental or co-operative housing options for low to medium income households (excluding immediate individual ownership and a contract as defined under the Alienation of Land Act, 1981 (Act No. 68 of 1981)), on an affordable basis, ensuring quality and maximum benefits for residents, and managing its housing stock over the long term”
- a **restructuring zone** is defined as a geographic area which has been identified by the municipality, with the concurrence of the provincial government, for purposes of social housing; and which has been designated by the Minister in the Gazette for approved projects
 - Restructuring comprises three main dimensions ...
 - Spatial restructuring
 - Social restructuring
 - Economic restructuring

Policy Framework

Definition of Social Housing

Social housing

“A rental or co-operative housing option for low to medium income households at a level of scale and built form which requires institutionalized management and which is provided by social housing institutions or other delivery agents in approved projects in designated restructuring zones with the benefit of public funding...” *Social Housing Act, 2009*

Key Pillars

Tenure:
Rental or Co-operative housing option

Target market:
Low income persons = household income below R7000 / month
Income group mix required within projects
Spread mix from R1500 – R7500 / month income groups within a project

Delivery agents:
Provided by:

- Accredited social housing institutions (SHIs)
- Private sector through accredited social housing projects
- Municipal Entities
- PPP

Designated “restructuring zones”:

- Geographic areas
- Identified by local authority
- Supported by province for targeted, focused investment

Scale and built form
which requires institutionalised management = medium to high density

Policy Framework

Social Housing Act

The purpose of the Social Housing Act is to:

- establish and promote a sustainable social housing environment;
- define the functions of national, provincial and local governments in respect of social housing;
- provide for the establishment of the **Social Housing Regulatory Authority (SHRA)** in order to regulate all social housing institutions obtaining or having obtained public funds;
- allow for the undertaking of approved projects by other delivery agents with the benefit of public money; and
- give statutory recognition to social housing institutions.

The Act comprises five chapters covering:

- Definitions and general principles
- Roles and responsibilities
- Social Housing Regulatory Authority
- Social Housing Institutions
- General provisions

Policy Framework

Social Housing Act

General principles applicable to social housing

These general principles require national, provincial and local spheres of government and social housing institutions to ensure that their respective social housing projects are:

- responsive to local housing demands;
- give priority to the needs of women, children, child-headed households, persons with disabilities and the elderly;
- support the economic development of low to medium income communities by providing housing close to jobs, markets and transport and by stimulating job opportunities to emerging entrepreneurs in the housing services and construction industries;
- provide residents with a clean, healthy and safe environment:
- not discriminate against residents on any grounds;
- consult with and facilitate the involvement of relevant interested individuals, communities and financial institutions in all phases of development;
- ensure secure tenure for residents; and
- promote a conducive environment, training opportunities, viable and sustainable communities, an understanding and awareness of social housing processes; transparency, accountability and efficiency in the administration and management of social housing stock and social housing institutions and best practices and minimum norms and standards in relation to the delivery and management of social housing;

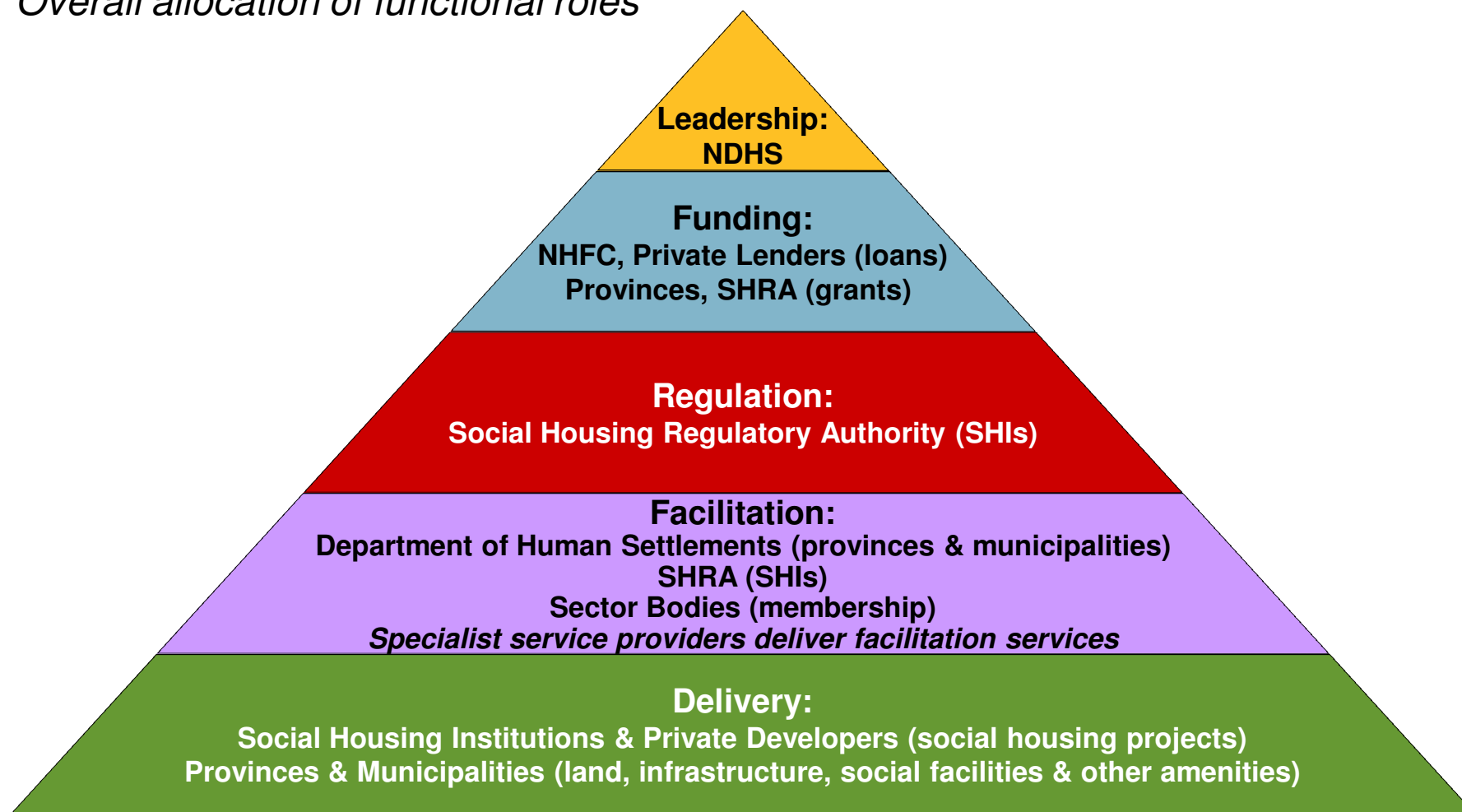
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Sector Roles & Responsibilities

Functional Roles in the Social Housing Sector

Overall allocation of functional roles



Sector Roles & Responsibilities

Functional Roles in the Social Housing Sector

SHRA in relation to NDHS & PDoH's

National Department of Human Settlements

- Strategy & Policy
- Programme Budget
- Manage the SHRA
- Manage the Overall Sector Growth
- Approve Restructuring Zones
- Capacity Building (Public Sector Support)

Provincial Departments of Housing

- Provincial social housing strategies
- Provincial project prioritisation
- Approval of social housing projects
- Disbursement of institutional and top-up capital grants
- Support municipal social housing capacity
- Provincial sector relationship development & support

Social Housing Regulatory Authority

Regulation

- Accredite & Register SHI's
- Recommend Restructuring Zones
- Set Principles of Compliance & Accreditation
- Regulates for Compliance
- Acts on Non-Compliance
- Reports on Compliance (Individual SHI and Sector-wide SHI / project performance)

Investment

- Assessment & support prospective capital projects
- Awarding top-up capital funding
- Compliance of project delivery
- Specifying & funding required Institutional Investment
- Procurement of common SHI sector-wide support

Sector Roles & Responsibilities

National Government

National government is responsible to:

- create and uphold an **enabling environment** for social housing, by providing the legislative, regulatory, financial and policy framework for the delivery of social housing;
- **ensure compliance with its constitutional responsibilities;**
- **address issues that affect the growth, development or sustainability** of the social housing sector;
- **institute and fund the social housing programme;**
- **designate restructuring zones** submitted by provinces and identified by municipalities;
- **allocate funds from the Department's budget for the operational costs and commitments of the Regulatory Authority** in accordance with the approved social housing investment plan and the social housing regulatory plan;
- **determine norms and standards** to be adhered to by provinces and municipalities; and
- **monitor** the Regulatory Authority.

Sector Roles & Responsibilities

Provincial Government

Provincial government is responsible to:

- **ensure fairness, equity and compliance** with national and provincial social housing norms and standards;
- **ensure the protection of consumers** by creating awareness of consumers' rights and obligations;
- **facilitate sustainability and growth** in the social housing sector;
- **mediate in cases of conflict** between a social housing institution or other delivery agent and a municipality, if required;
- **submit proposed restructuring zones** to the Minister;
- **monitor social housing projects** to ascertain compliance with prescribed norms and standards;
- **administer the social housing programme, by approving projects;** and
- **approve, allocate and administer capital grants**, in the manner contemplated in the social housing investment plan, to approved projects.

Sector Roles & Responsibilities

Municipalities

***Municipalities** are responsible, where there is demand for social housing within their municipal area, to:*

- **encourage the development of new social housing stock and the upgrading of existing stock or the conversion of existing non-residential stock;**
- **provide access to municipal rental stock, land and buildings** for social housing development in designated restructuring zones and to municipal infrastructure and services for approved projects, and
- **initiate and motivate the identification of restructuring zones**

Sector Roles & Responsibilities

NHFC & Other Delivery Agents

*The **National Housing Finance Corporation** must, in respect of social housing:*

- provide access to **loan funding**;
- **make available financial information to the Regulatory Authority** in respect of the sustainability of social housing institutions;
- **facilitate or provide access to guarantees for loan funding** from financial institutions;
- **explore and support mechanisms aimed at facilitating public funding for social housing**;
- **conclude an agreement** with the Regulatory Authority **aimed at avoiding the duplication of functions and overregulation** of social housing institutions.

*The Act makes provision for private sector **Delivery Agents** to undertake accredited social housing projects*

- **Delivery agents** may undertake approved projects in designated restructuring zones with the benefit of public funding

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Regulatory Authority Structure & Functions

Mandate

The key functions of the SHRA are:

- **Promote the development and awareness of social housing and promote an enabling environment for the growth and development of the social housing sector**
- **Provide advice and support to the Department of Human Settlement** in its development of policy for the social housing sector and facilitate national social housing programmes.
- **Provide best practice information and research on the status of the social housing sector**
- **Support provincial governments with the approval of project applications** by social housing institutions and assist, where requested, in the process of the designation of restructuring zones
- **Enter into agreements with provincial governments and the National Housing Finance Corporation** to ensure that implementation by these entities is co-ordinated

Regulatory Authority Structure & Functions

Mandate

The key functions of the SHRA continued ...

- **Provide financial assistance to social housing institutions through grants** to enable them to develop institutional capacity, gain accreditation as social housing institutions and submit viable project applications
- **Accredit institutions meeting accreditation criteria as social housing institutions and maintain a register of social housing institutions.** In addition conduct compliance monitoring through regular inspections and enforce compliance where necessary. In addition intervene in the affairs of a social housing institutions in cases of maladministration
- **Approve, administer and disburse institutional investment grants and capital grants** and obtain applications for such grants through engagement with provincial governments and municipalities
- **Make rules and regulations in respect of the accreditation** of Social Housing Institutions and the disbursement of government funds to them.
- The **SHRA is empowered to intervene** if it is satisfied on reasonable grounds that there has been maladministration by a social housing institution. This intervention comprises informing the social housing institution and supporting them to address the problem. If the social housing institution does not cooperate in this regard then to take over the administration of the institution.

Strategic Objectives of the SHRA

Provisional – Not Approved

- To **increase the rate of social housing delivery** by leveraging additional public and private sector investment into social housing delivery
- To **increase the number of social housing units delivered** through the active engagement of the private sector in social housing delivery

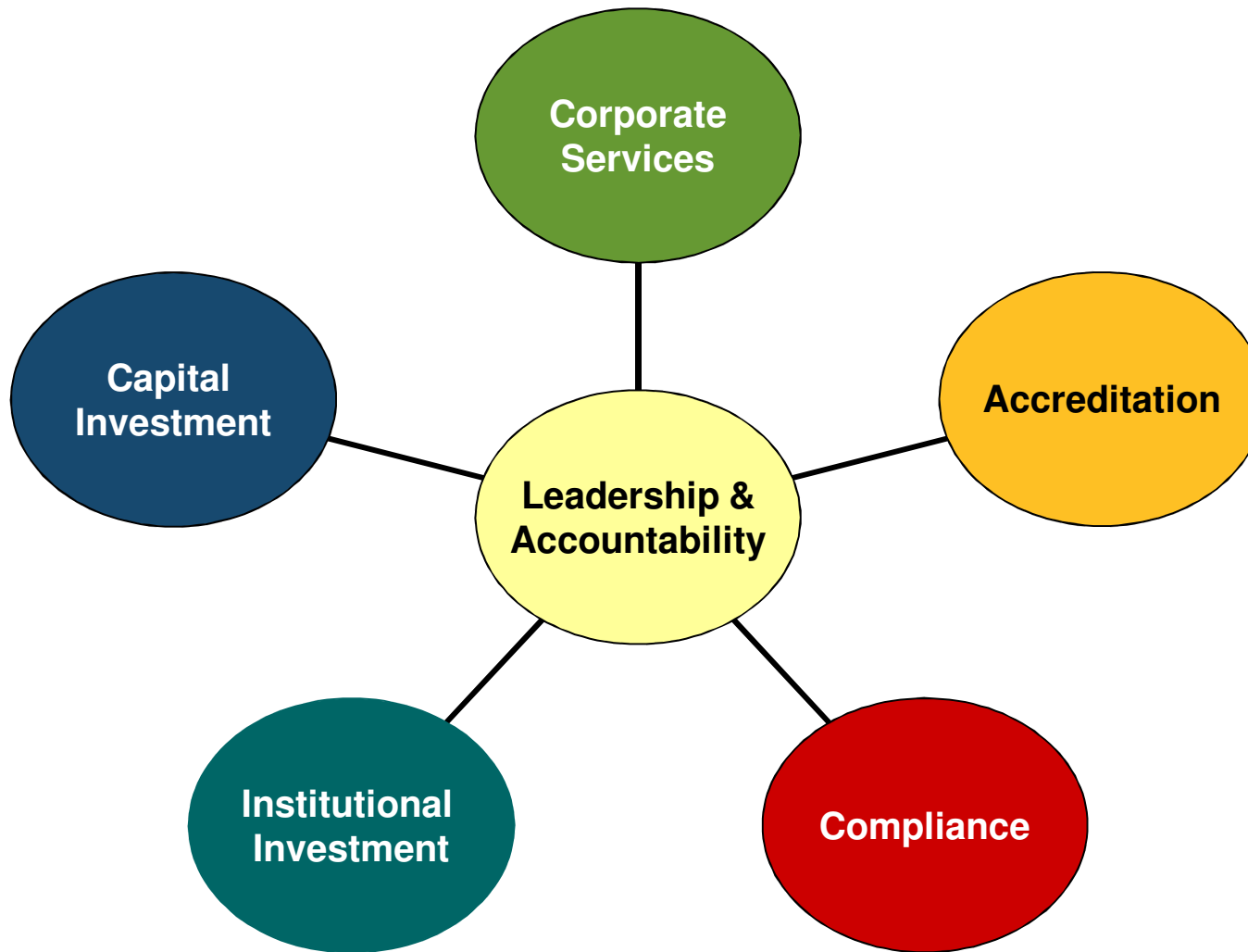
- To **contribute to urban restructuring** through targeted investments in appropriate, well located social housing projects that make a meaningful impact on the urban structure of the city and town in which the project is located

- To **promote the development of the sector through investment in social housing projects and capacity development processes** and projects
- To **ensure that the public sector funds investment in social housing is viable and protected**
- To **promote the development of the sector through effective regulation and intervention to prevent institutional collapse**

- To **promote employment equity in the workplace and BBBEE** in terms of procurement
- To **promote productive partnerships and cooperation** between all relevant stakeholders in the sector
- To **develop best practice and organisational expertise** in respect of investment management and regulation practices

Regulatory Authority Structure & Functions

Functions of the SHRA



Regulatory Authority Structure & Functions

Functions of the SHRA

Accreditation

- Set out **Qualifying Criteria** for accreditation and supporting documentation
- Assess **applications for Accreditation**
- Make available **institutional investment grants** to provisionally accredited SHIs
- Maintain the **Public Register of SHIs**
- **Collect performance and accreditation information** from SHIs

Compliance

- Set out **Principles of Regulation**, and supporting documentation
- Analyse performance data
- On the basis of this analysis develop the annual **Social Housing Regulation Programme (SHoRP)**
- Carry out **inspections, visits and reviews**
- Issue **reports identifying non-compliance and make recommendations** for improvement
- **Intervene where non-compliance** is serious or on-going
- **Report on sector and individual SHI performance**

Regulatory Authority Structure & Functions

Functions of the SHRA

Capital Investment

- Set out **Principles of Investment** and supporting documentation
- Develop the **Social Housing Investment Programme (SHIP)**
- **Invest in project development**
- **Invest in sustainable projects** proposed by compliant institutions
- **Work with other spheres of government** to ensure programme is delivered
- **Report on the performance** of the sector and individual SHI's

Institutional Investment

- Contribute to the **Principles of Investment and SHIP**
- **Accredit and maintain a panel of service providers**
- **Invest in institutional support** specified by Compliance Team
- **Invest in institutional excellence projects** submitted by SHIs
- **Invest in sector support** where specific to the SHI sector and identified in the SHIP
- Ensure the programme is delivered

Regulatory Authority Structure & Functions

Functions of the SHRA

Corporate Services

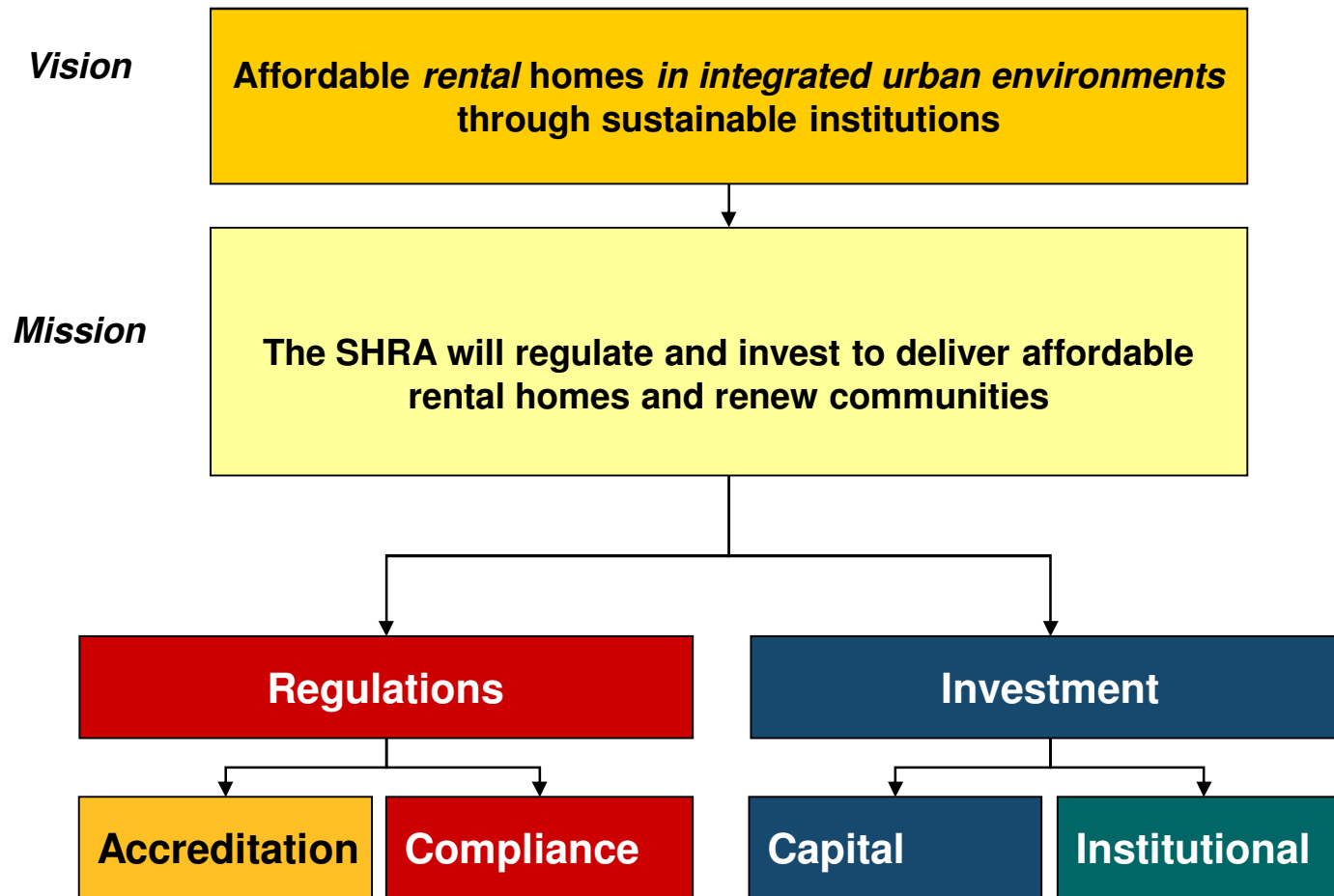
- Financial management
- Office management
- Public Affairs
- Information technology
- Human resources

Leadership and Accountability

- Principles of Regulation, Principles of Investment, Qualifying Criteria
- SHIP and SHoRP
- Clear Performance targets
- Annual Performance Assessments of SHIs
- Reports to NDHS on SHIP, SHoRP and the Authority's performance
- An exemplar organisation

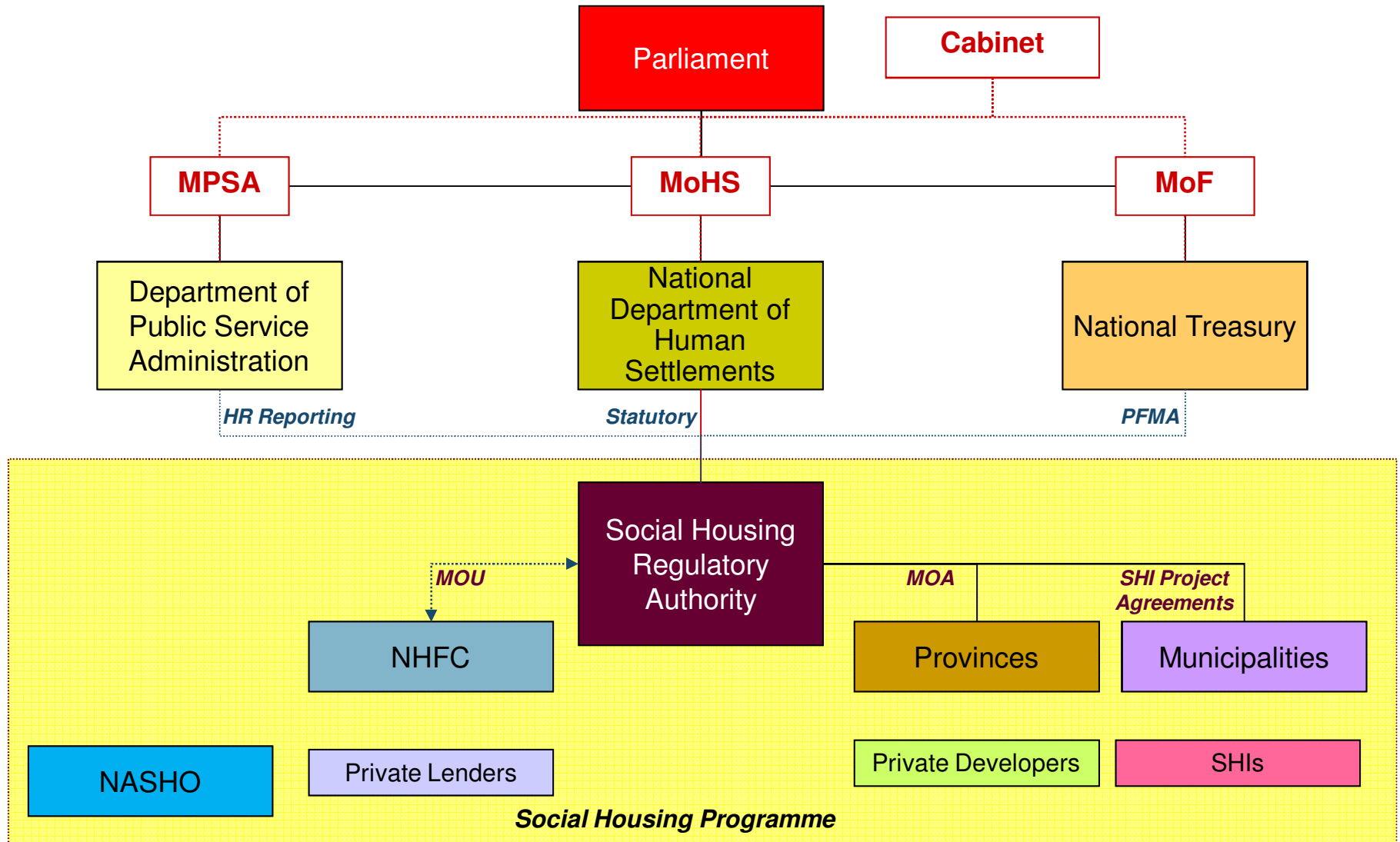
Regulatory Authority Structure & Functions

Vision & Mission



Institutional Arrangements

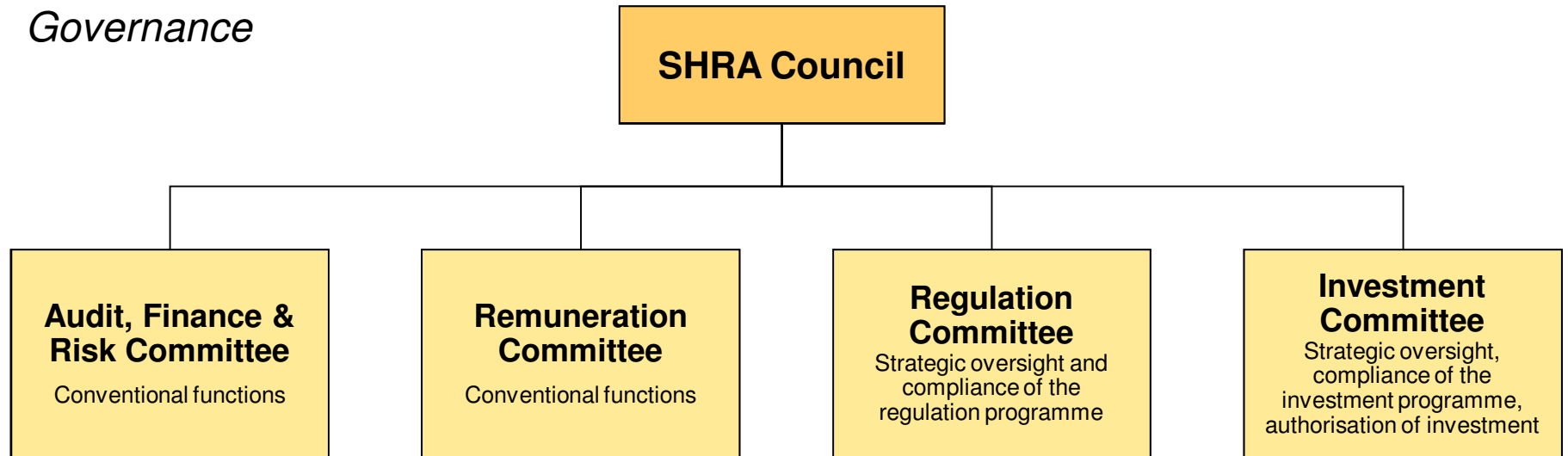
SHRA linkages with other organisations



Regulatory Authority Structure & Functions

Governance Structure

Governance



Board Structure

- Between 7 and 12 members
- Compliance with legislation
- Chair and Deputy Chair – Ministerial appointments
- Representation to include Regional and Sector stakeholders from Public and Private Sectors

Competencies

- Knowledge of sector
- Financial and risk management
- Property development
- Property management
- Regulation
- Human resources
- Banking / Financial
- Marketing

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Investment & Regulatory Programme

Capital Grant Programme

Social Housing Act provides for a Social Housing Restructuring Capital Grant to contribute towards spatial, social and economic restructuring of South African cities.

The following entities are eligible for Social Housing Restructuring Capital Grants:

- New accredited Social housing institutions (SHIs)
- New Co-operatives
- Existing accredited SHIs, accredited Co-operatives & MOEs
- Private Sector Companies
- Public-Private Partnerships

Investment & Regulatory Programme

Grant Components

Restructuring capital grant – 2 components:

1. Standard component
2. Top-up component from
 - Provinces / accredited metros
 - Up to 1 x institutional subsidy

Key principles applied:

- Grant is only applicable to portion of capital costs of project -
- Funding is against the project
- Rents not exceed 33.3% of monthly income
- Min 30% primary market: R1500-R3500
- Max 70% secondary market: R3501-R7500
- Rentals no higher than R2500
- Projects must be financially viable
- Escalations will be applied in the policy
- Private sector firms must pledge an equity contribution (min 20%) up-front in order to be eligible for the grant

Investment & Regulatory Programme

Investment Plan (SHIP) - Restructuring Grant

Approach

- Open call for proposals – a bidding process
- Assessment of delivery agents and projects in terms of:
 - Institutional Viability
 - Financial sustainability, governance, management, capability and capacity to take on the new project/s
 - Project validity
 - Validity of concept
 - Project readiness
 - Project Financial Viability
 - Internal rate of return: weighted average cost of capital plus 4.5%
 - DSCR: 1.3

Funding Available:

- 2009/10: R 44 m 293 units (@ avg of R150k/unit)
- 2010/11: R 123 m 820 units (@ avg of R150k/unit)
- 2011/12: R 86 m 573 units (@ avg of R150k/unit)
- 2012/13: R 54 m 360 units (@ avg of R150k/unit)

Investment & Regulatory Programme

Investment Plan (SHIP) – Capacity Grants

Approach

- Three institutional investment grants for capacity building are provided for:
 - **Project Acquisition & Feasibility Grant:** Provide financial support to the process of preparing project proposals and obtaining approval for them.
 - Allocated on a bi-annual proposal call and evaluation process
 - Quantum: Maximum R250,000 – R500,000 to be capitalized and “recovered” *
 - **Pre-Accreditation Grant:** Provide financial support to the process of preparing and submitting a proposal for accreditation.
 - Must have identified a project and which project must have achieved Project Qualifying Status (Private sector firms are not eligible) – open application process
 - Quantum: Maximum R25,000
 - **General Capacity Building Grants:** Demand driven and programme-related grants to support the sector i.r.o. of the project pipeline.
 - Restricted to membership organizations, provinces & municipalities – open application process
 - Quantum: Maximum of R75,000

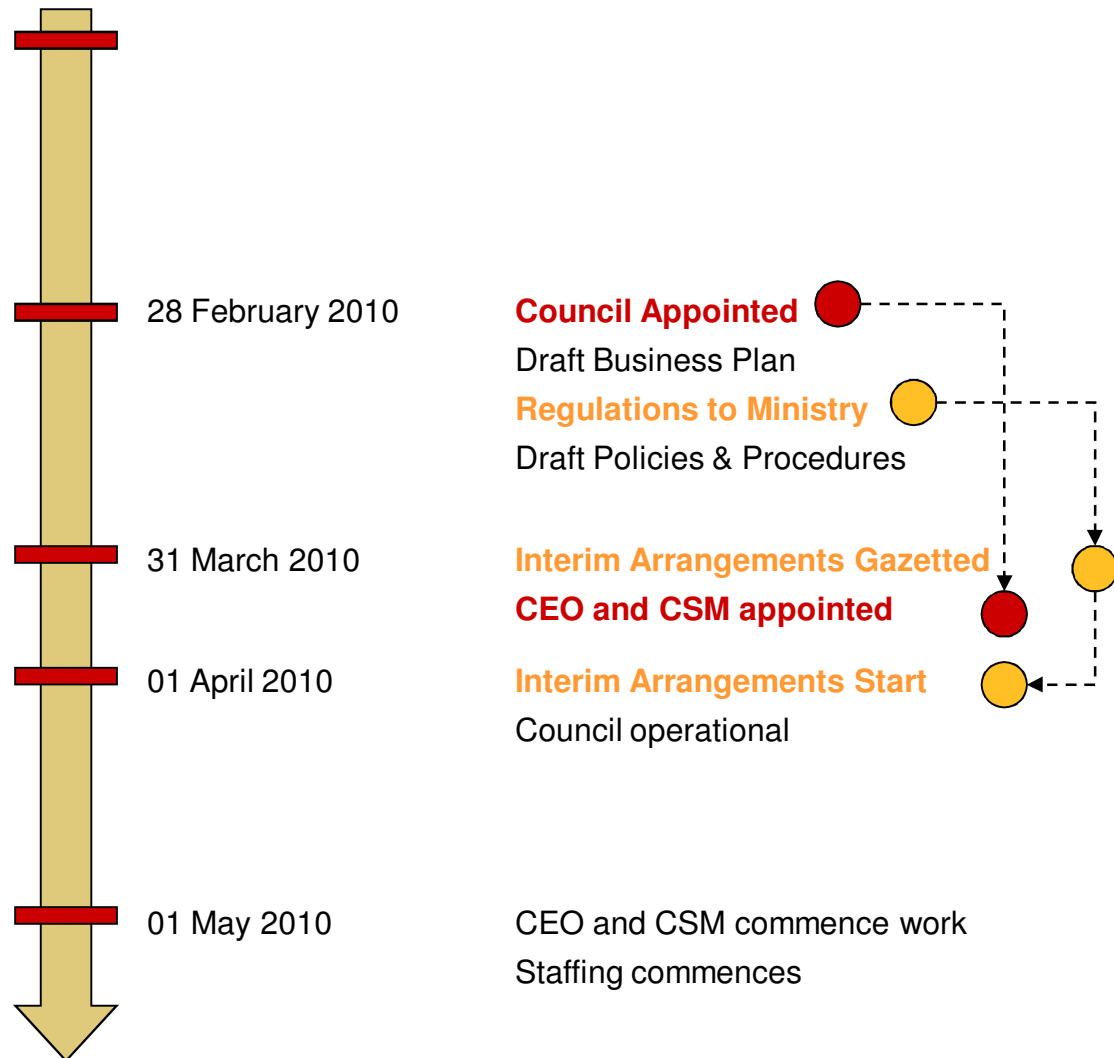
* Given the overall funding available a % based approach is not deemed feasible at this stage

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Current Status

Key Milestones - Planned



Critical Dependencies:

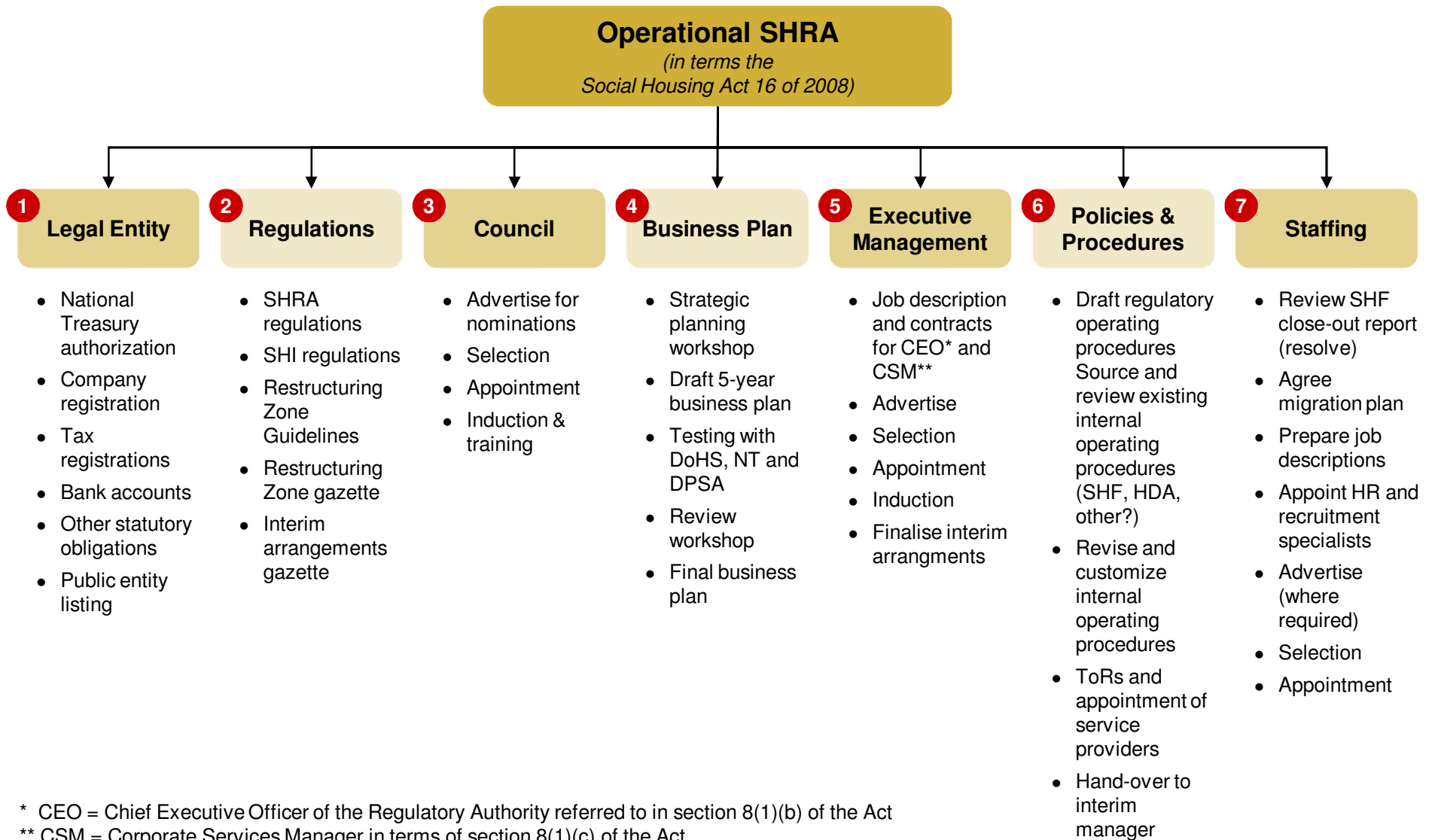
- Appointment of Board is required to appoint the CEO and in turn the CEO is required to appoint the CSM
- Regulations need to be promulgated

Social Housing Act No. 16 of 2008:

8. (1) The Regulatory Authority consists of a—
 (a) Council, appointed in accordance with section 9;
 (b) Chief Executive Officer, appointed by the Council with the approval of the Minister, responsible for the day to day management of the affairs of the Regulatory Authority;
 (c) Corporate Services Manager, appointed by the Chief Executive Officer, responsible for financial management, including corporate management services.

Current Status

Key SHRA Establishment Steps



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